

# Due Diligence

Portfolios **RE:** Constructed  
with **Mackenzie**

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## Mackenzie Resource Team:

Introducing the Mackenzie Inflation  
Fund

Benoit Gervais  
Portfolio Manager, Head of Mackenzie Resource  
Team

# Key takeaways



**Inflation is likely to persist**

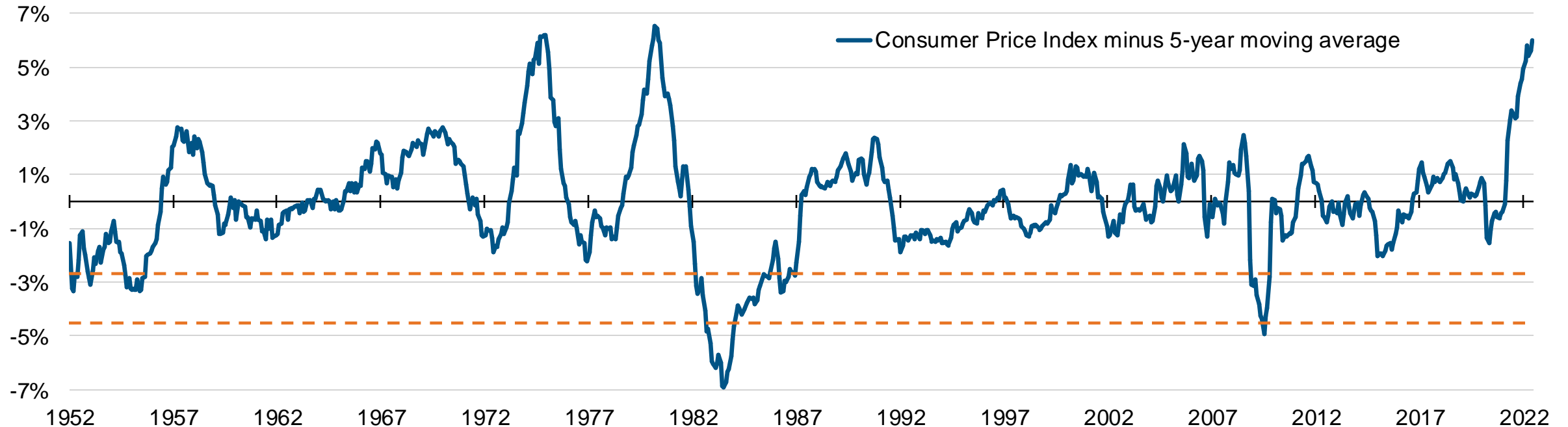


**Traditional 60/40 portfolios are likely to underperform during periods of rising inflation**



**Mackenzie Inflation-Focused Fund is actively managed and designed for strong relative performance in high & rising inflation**

# Accelerating inflation a headwind for equities



Consumer Price Index minus 5-year average	Average S&P 500 return
Above 1.0%	-1.9%
-0.5% to 1.0%	7.4%
Below -0.5%	13.9%

Source: Bureau of Labor Statistics; Ned Davis Research. Consumer Price Index Minus Five-Year Moving Average. Bloomberg - annualized returns for S&P500 in USD.

# Secular trends support higher inflation for longer



## Climate change

- Retooling to produce cleaner goods requires new capital and higher prices
- During the transition, carbon prices and taxes add costs



## Onshoring

- Substandard social and environmental practices in emerging economies are leading developed economies to reconsider supply chains
- Recent supply chain challenges accentuated the risks from globalization and just-in-time manufacturing
- A potential solution to address the pressure of rising domestic income inequality



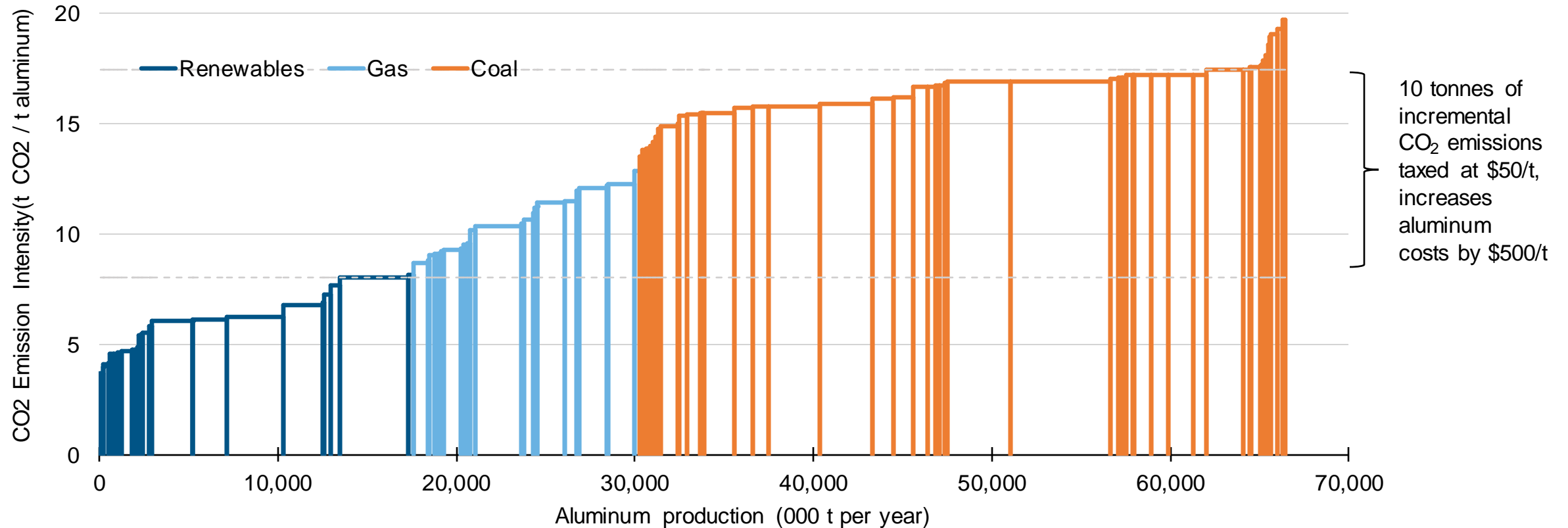
## Infrastructure rebuild

- Decades of underinvestment in infrastructure
- Need for more efficient and greener infrastructure

**Inflation may not be merely a cyclical trend**

# Climate change: reducing emissions could increase costs

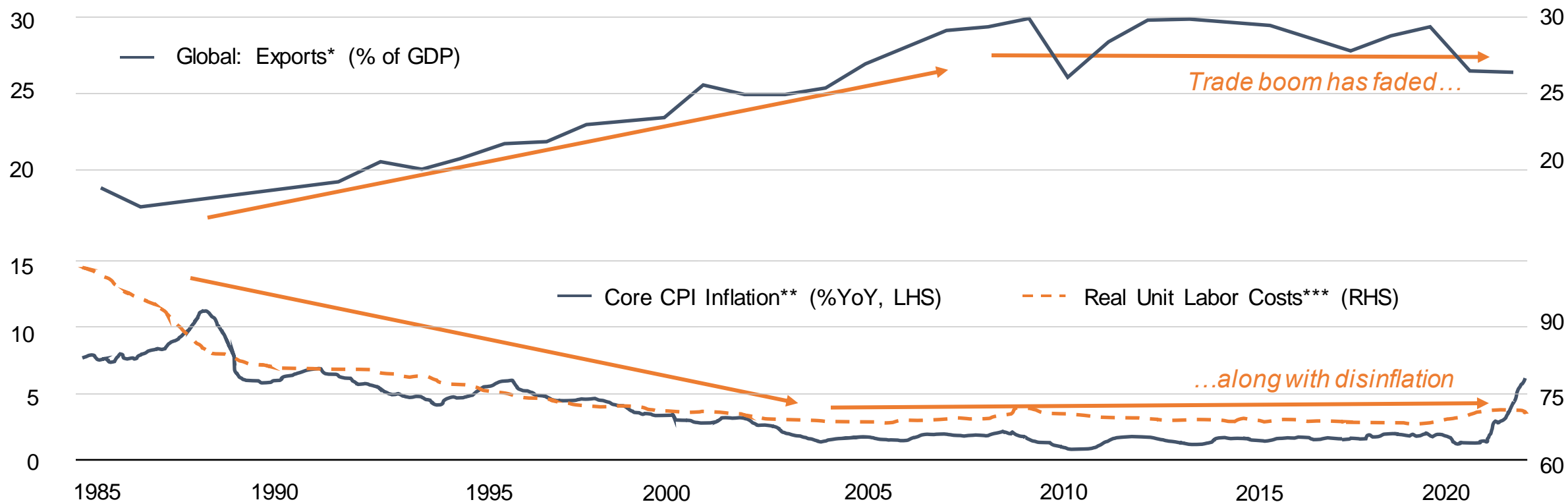
## Aluminum production emissions by primary energy source



**The majority of global aluminum production will be subject to carbon taxes**

Source: Skarn Associates, Mackenzie Investments.

# Onshoring: Impact of shift to onshoring

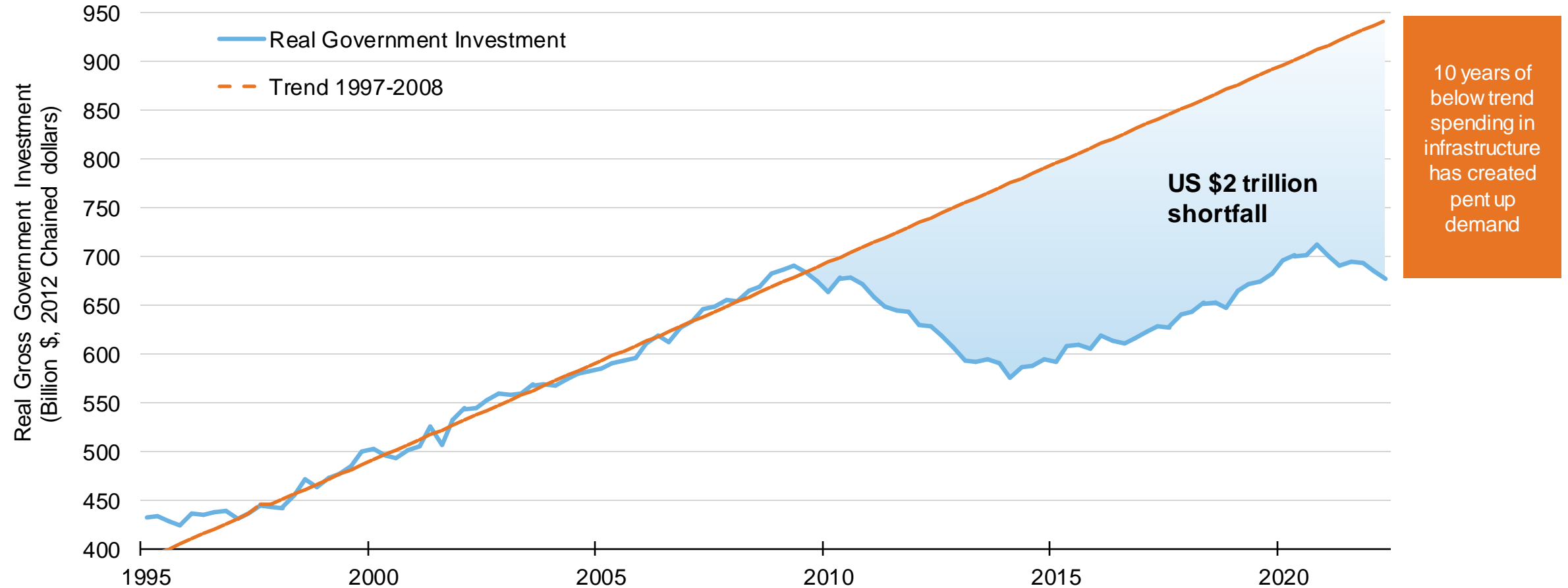


**The end of globalization's deflationary force**

Source: MRB Research, Mackenzie Investments. \*OECD and the World Bank. \*\* OECD, Excluding food and energy. \*\*\*OECD, Deflated by core CPI; rebased.

# Infrastructure rebuild

## U.S. government investment (\$ billion)



Source: Bureau of Economics, St. Louis Fed, June 2022.



# Portfolio management team

The team's macro-economic, fixed income and commodity expertise equips them to tactically manage through periods of rising inflation

## Portfolio management team



**Benoit Gervais**, MSc., CFA  
Portfolio Manager  
Head of Mackenzie Resource Team



**Onno Rutten**, MSc., MBA  
Portfolio Manager,  
Mackenzie Resource Team



**Konstantin Boehmer**, MBA  
Co-Lead of Fixed Income Team,  
Head of Global Macro,  
Portfolio Manager



**Felix Wong**, MBA, CFA  
Portfolio Manager,  
Mackenzie Fixed Income Team



**Jeff Li**, CFA  
Portfolio Manager,  
Mackenzie Fixed Income Team

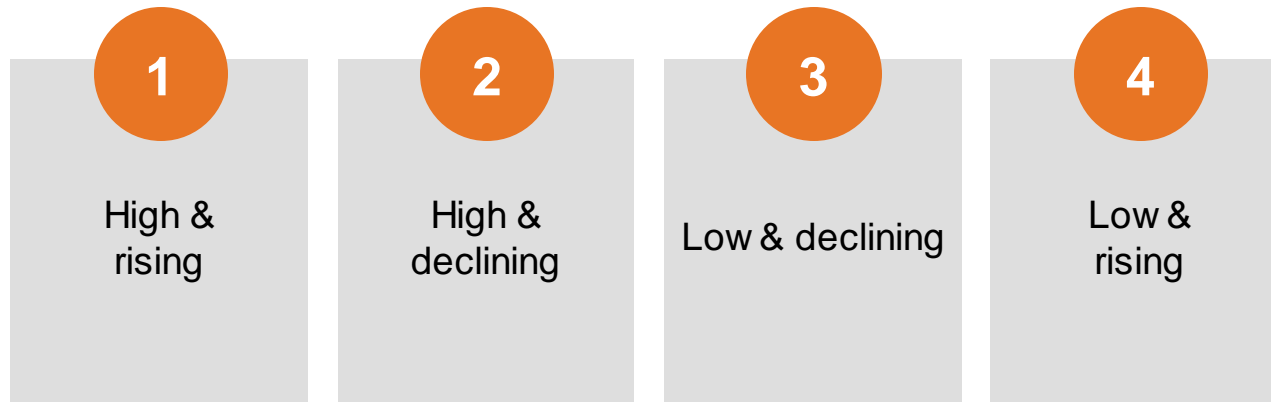
## Investment director



**Dagmar Pagel**, CFA  
AVP Equity

# Not all inflation regimes are the same

Historical cycles since the 1950's are characterized by 4 distinct regimes



Asset classes behave distinctly different in each regime, which drives our proprietary asset allocation model.



Inflation history



Four inflationary regimes



Asset allocation

# Investment process

## STEP 1

Our proprietary model determines the current inflation regime based on US headline CPI data.

## STEP 2

Data driven assessment of the current inflation regime informs optimal asset allocation.

## STEP 3

Asset allocation adjustments are based on the model, fundamental analysis and expert insight of the portfolio management team.

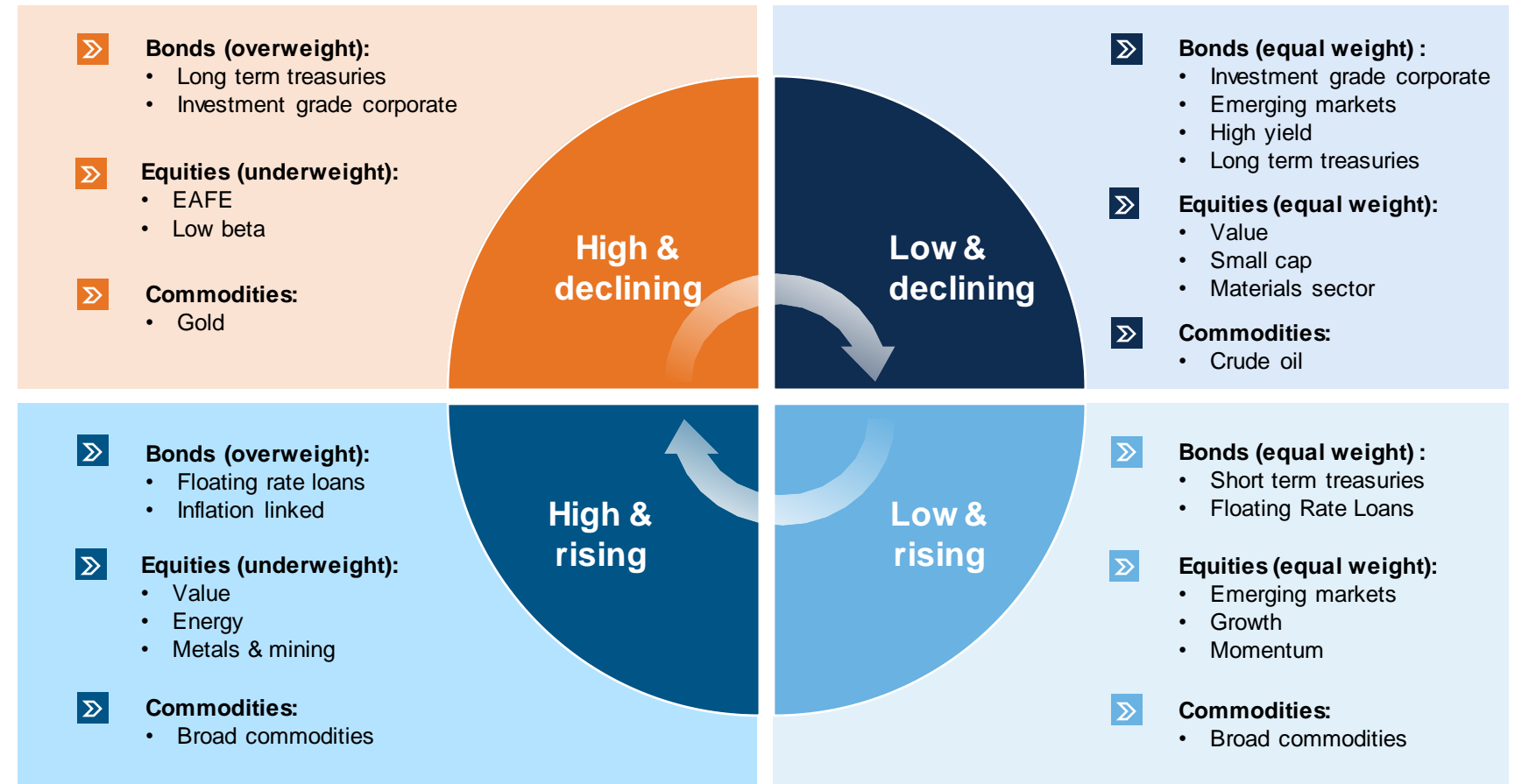
## STEP 4

Inflation regimes are updated based on monthly inflation data. Changes to the fund are made accordingly & tactically.



Our model, in combination with the expert insights of our portfolio management team, will allow us to construct a fund that will prove resilient to the worst impacts of high inflationary environments.

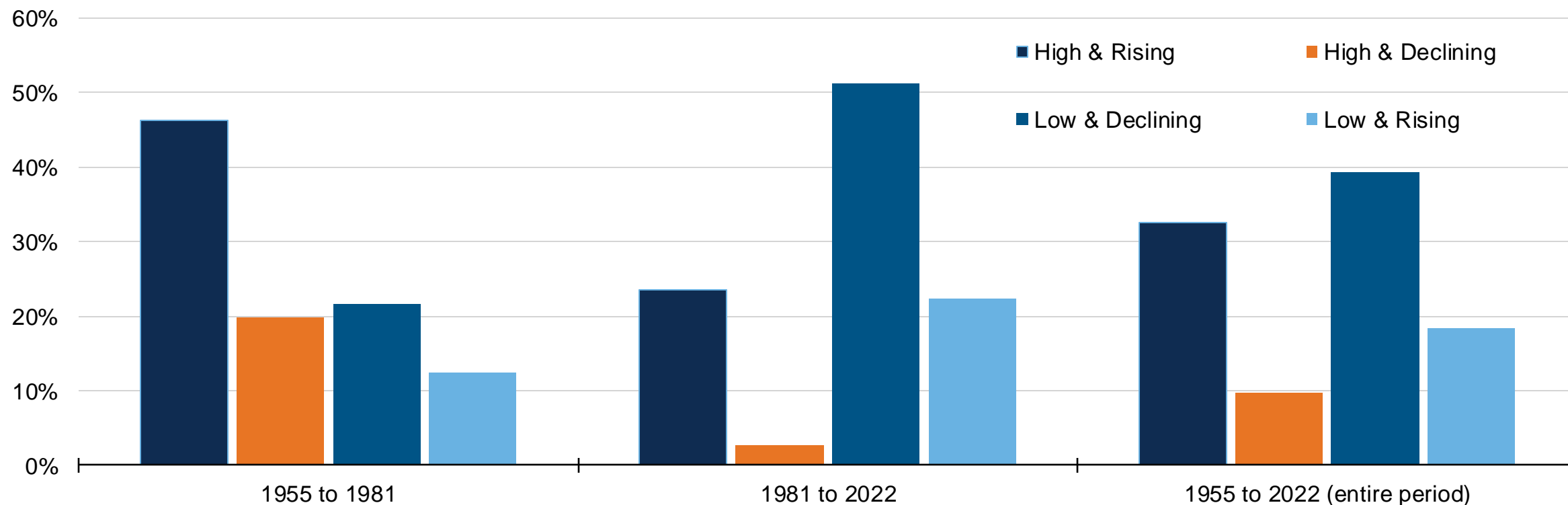
# Sample asset selection by inflation regime



**Allocation to asset classes is dependent on the prevailing regime**

# A long-term perspective on inflation

## Percentage of time in each inflation regime

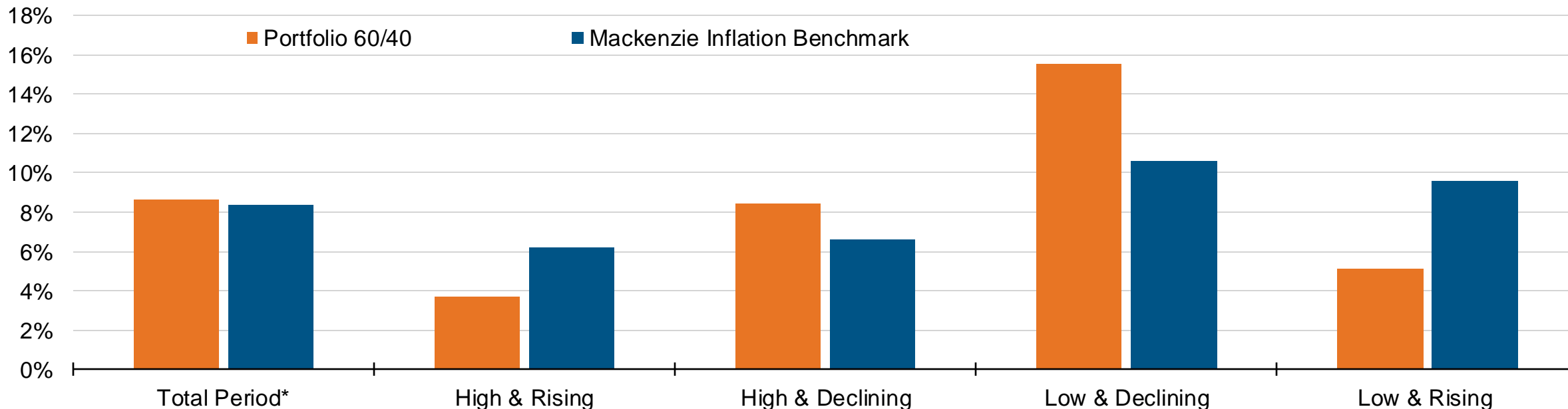


**Traditional 60/40 funds are built for a low inflation regime**

Source: Mackenzie Investments.

# Return profile by inflation regime

**Mackenzie inflation-focus fund benchmark outperforms in rising inflation regimes**



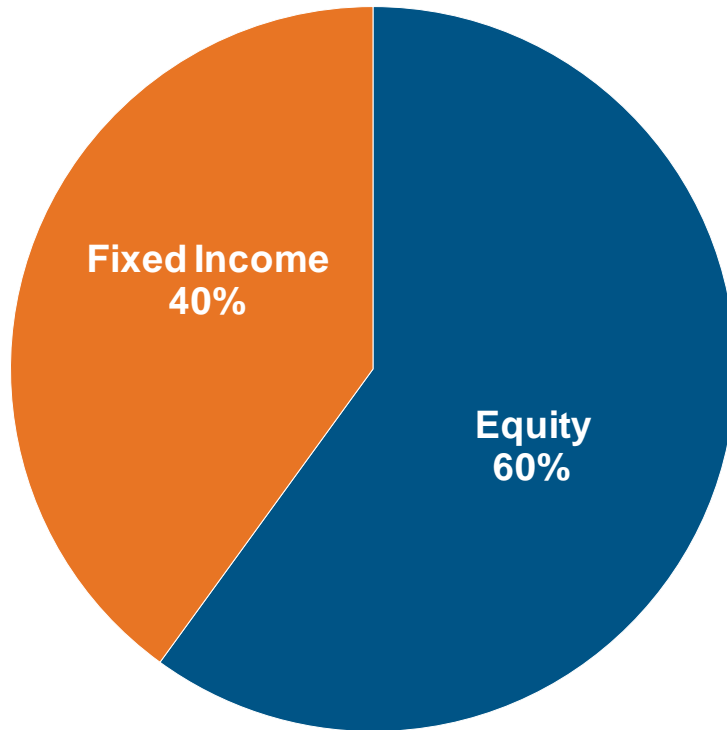
Total period*	Compound annual growth rate	Volatility	Sharpe ratio	Maximum drawdown	Calmar ratio
Portfolio 60/40	8.65%	8.70%	0.99	-25.03%	0.35
Mackenzie inflation benchmark	8.37%	6.76%	1.24	-14.22%	0.59

Source: Mackenzie Investments, \*Jan 1965 - May 2022. 60/40 Portfolio is 60% MSCI World in CAD and 40% ICE BofA Global Broad Market Index (GBMI)

# Portfolio snapshot

# High and rising inflation regime, overweight equities 5%

## Asset allocation



Source: Mackenzie Investments as of September 30, 2022.

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US headline inflation was 8.3% in August.

While June and July CPI was 8.5% and 9.1% respectively, several core categories (service costs & rents) posted substantial increases in August. Further, these core inflation pressures more than offset the decline in gas prices

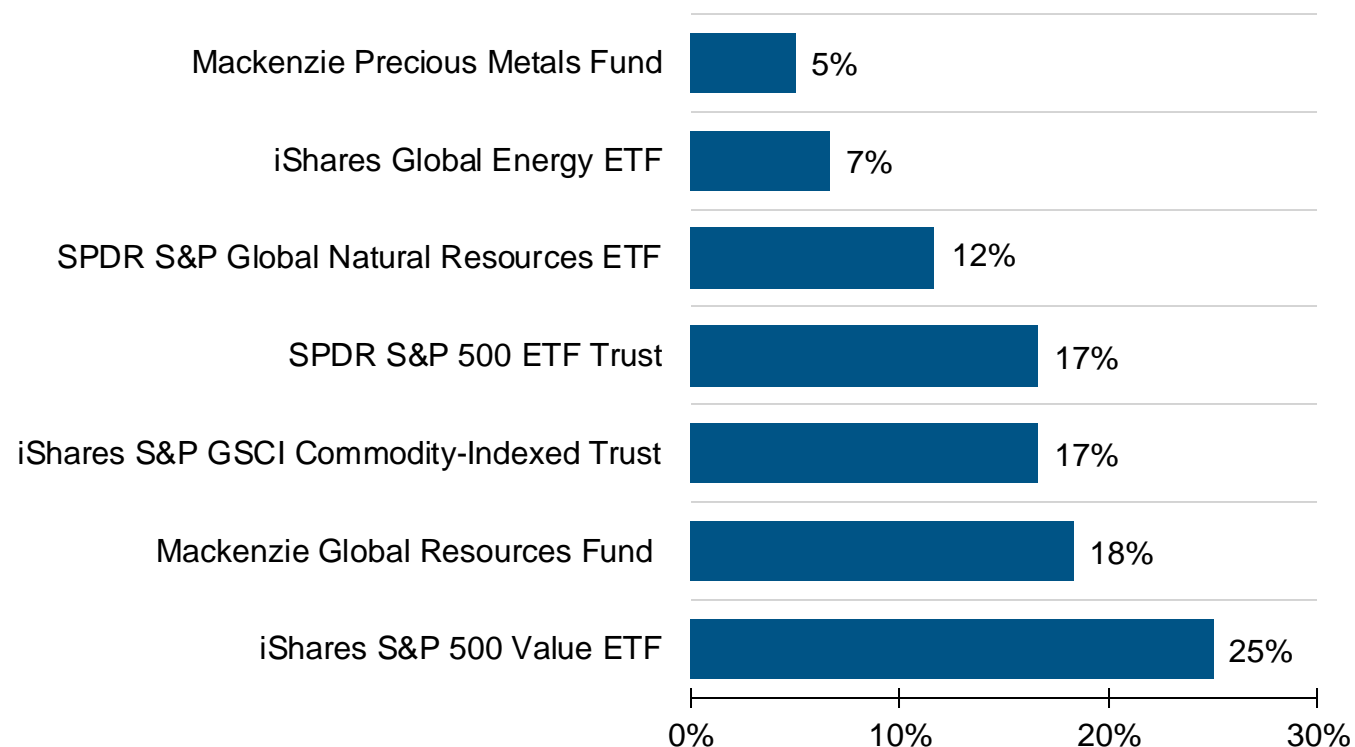


The model did not signal a change in inflation regime in September



# 60% equity – Inflation regime favours energy and materials

## Holdings

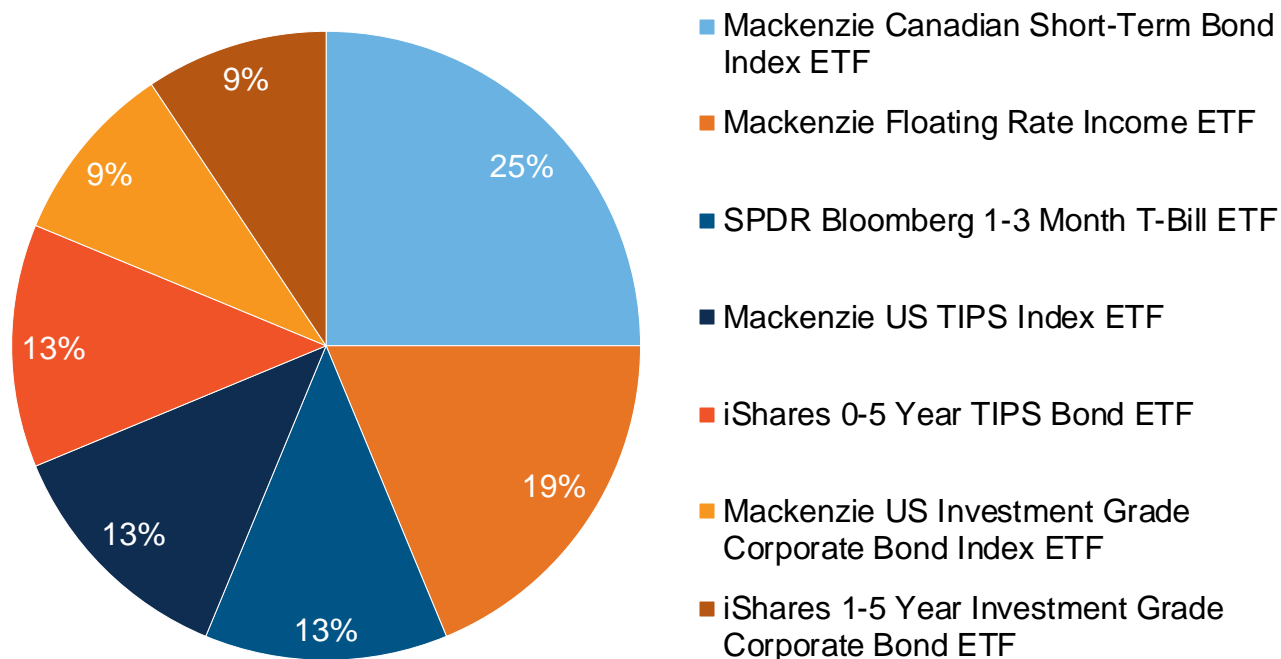


Sector exposures	Percent of equity holdings
Energy	28.5%
Materials	23.9%
Information Technology	9.3%
Health Care	8.0%
Financials	6.8%
Consumer Staples	5.7%
Industrials	5.5%
Consumer Discretionary	4.1%
Communication Services	3.6%
Utilities	2.7%
Real Estate	1.8%

» Dividend yield 2.7%

# 40% fixed Income – Inflation regime favours short duration

## Fixed Income



Source: For illustrative purposes only. Mackenzie Investments, FactSet, ishares. Fixed Income ETFs are priced in CAD or hedged to CAD. Mac Can ST Bond Index ETF, Mackenzie US TIPS Index ETF to the end of July 2022. iShares 1-5 Year Investment Grade Corporate Bond ETF, iShares 0-5 Year TIPS Bond ETF, SPDR Bloomberg 1-3 Month T-Bill ETF show YTM & Duration to the end of August.

Holdings	Yield	Duration	Credit quality
Mackenzie Canadian Short-Term Bond Index ETF	4.6%	2.7	AA-
SPDR Bloomberg 1-3 Month T-Bill ETF	2.6%	0.2	Aaa
Mackenzie US TIPS Index ETF	3.0%	7.0	AAA
iShares 0-5 Year TIPS Bond ETF	4.5%	2.7	AAA
Mackenzie Floating Rate Income ETF	7.9%	0.4	BB-
Mackenzie US Investment Grade Corporate Bond Index ETF	5.8%	5.5	A
iShares 1-5 Year Investment Grade Corporate Bond ETF	4.5%	2.7	A
<b>Portfolio overall</b>	<b>4.9%</b>	<b>2.8</b>	<b>AA+</b>

# Closing thoughts

# Why invest? **Because**



**Inflation is likely to persist**



**This is an actively managed Fund – adjustments to asset allocation & security selection based on the inflation regime informed by US headline CPI**



**It has the right team – collaboratively managed by teams that have a strong view on inflation (high or low)**



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